



NORTH DAKOTA OFFICE OF THE STATE AUDITOR

State Auditor Joshua C. Gallion

Department of Financial Institutions

For the Two-Year Period Ended June 30, 2022

Client Code 413





WHAT WE LOOKED AT AND WHY

North Dakota state law requires that our team perform an audit once every two years. This included a review of financial transactions and determining that expenditures are correct. Our audit reports any errors, internal control weaknesses or potential violations of law identified in significant or high-risk functions of the agency.

WHAT WE FOUND

This audit did not identify any areas of concern.

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HAVE QUESTIONS? ASK US.

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Introduction

Department of Financial Institutions

May 9, 2023

We are pleased to submit this audit of the Department of Financial Institutions for the two-year period ended June 30, 2022. This audit resulted from the statutory responsibility of the State Auditor to audit or review each state agency once every two years. The same statute gives the State Auditor the responsibility to determine the contents of these audits.

The primary consideration in determining the contents of these audits is to produce informative audits to improve government. Statutory audit requirements are an important part of these audits and are addressed by our standard audit objective. Whenever possible, additional audit objectives are included to increase the responsiveness and effectiveness of state government.

Lindsey Slappy, CPA, was the audit manager. Inquiries or comments relating to this audit may be directed to the audit manager by calling (701) 328-2241. We wish to express our appreciation to the Department of Financial Institution's staff for the courtesy, cooperation, and assistance they provided to us during this audit.

Respectfully submitted,

/S/

JOSHUA C. GALLION
NORTH DAKOTA STATE AUDITOR

TERMS USED IN REPORT

Appropriation: An amount authorized by the North Dakota Legislative Assembly to be spent for a specific purpose.

ConnectND: The accounting system for North Dakota.

Emergency Commission: A group of elected officials that have the authority to transfer or expend money appropriated by the North Dakota Legislative Assembly. Additional information can be found in N.D.C.C. Chapter 54-16.

Internal Control: Policies and procedures that ensure reliable financial reporting, safeguard assets, promote accountability and efficiency, and prevent fraud.

North Dakota Century Code (N.D.C.C.): Collection of all the statutes passed by the North Dakota Legislative Assembly.

North Dakota Administrative Code (N.D.A.C.): Codification of all rules of state administrative agencies.

Performance Audit: Engagements that provide objective analysis, findings, and conclusions to assist management and those charged with governance and oversight to improve program performance and operations, reduce costs, facilitate decision making, and contribute to public accountability.

Session Laws: Published after each regular and special legislative session and contain the laws enacted during that session.

Nationwide Mortgage Licensing System (NMLS): A centralized online database that mortgage and finance regulatory agencies use to maintain state licensing programs. The Department of Financial Institutions utilizes NMLS to receive fees and applications from the non-depository institutions it regulates.

Purchasing Card: The purchasing card is a credit card program administered by the Office of Management and Budget.



Audit Results

▼ PRIMARY OBJECTIVE

Are there any errors, internal control weaknesses, or potential violations of law for significant and high-risk functions of the agency?

CONCLUSION

No areas of concern were identified.



Audit Procedures

Primary Objective

INTERNAL CONTROL

We obtained an understanding of internal control through inquiries, observations, and inspection of documentation and electronic data records. We planned our audit work to assess the design, implementation, and operating effectiveness of those internal controls that were significant to our audit objectives.

The specific internal control testing completed for this audit objective is identified below:

- Segregated preparation and approval of expenditures is tested statewide in the State of North Dakota Annual Comprehensive Financial Report.
- Appropriation adjustments were approved by the Emergency Commission.
- Emergency Commission requests were tracked by project via spreadsheet and by utilizing unique PeopleSoft coding.
- Expenditures are approved by the appropriate staff members.
- Reconciliations for the Department of Financial Institutions' clearing account are performed monthly.
- Purchasing card statements are reconciled monthly and their expenditures are approved by appropriate staff.
- Purchasing cardholders have the proper OMB procurement training.
- Employee bonuses are approved by the Commissioner of the Department of Financial Institutions.

- NMLS reports are utilized to record deposits collected from non-depository institutions.
- Assessment payments owed from state-chartered banks and credit unions are tracked via spreadsheet.
- Assessment payments made by state-chartered banks and credit unions are reviewed by the chief examiner to determine accuracy based on the rates set by the State Banking and State Credit Union boards.

There were no significant deficiencies identified.

SCOPE

The Department of Financial Institutions has operations in the following locations. Each location was included in the audit scope:

- The Bismarck office in the Bank of North Dakota Building
- Fargo office
- Grand Forks office

METHODOLOGY

To meet this objective, we:

- Interviewed appropriate agency personnel.
- Observed the Department's processes and procedures.
- Analyzed financial data in ConnectND to determine areas of risk.
- Identified adjustments made to the Department of Financial Institutions' appropriation statement and randomly tested expenditures made against this to ensure the appropriation was used for its intended purpose.
- Selected a judgmental sample of purchasing card expenditures to ensure compliance with the law (N.D.C.C. sections 44-08-5.1 & 6-01-01.1(2)) and state policies (OMB purchasing card manual).

- Selected a random sample of expenditures to ensure expenditures were for lawful and official purposes and properly coded and supported. (N.D.C.C. Sections 44-08-05.1, 54-44.1-09, and 44-08-03).
- Selected a random sample of deposits from non-depository institutions to ensure receipts were properly coded and revenue was collected under relevant Century and Administrative Code (N.D.C.C. Sections 13-04.1-11(1a), 13-04.1-04, 13-05-04, 13-08-05, 13-09-08, 13-09-10 and N.D.A.C. section 13-08-01-01) and were properly coded.
- Selected a random sample of deposits from depository institutions to ensure assessment payments were tracked and made in accordance with the rates set by the State Banking and State Credit Union Boards (N.D.C.C. 06-01-17 and 06-06-08(4)) or other payments were made in accordance with relevant Century Code (N.D.C.C. sections, 06-01-17.1, and 44-04-18(2)) and were properly coded.
- Ensured all deposits sampled were traced to deposits into the Bank of North Dakota in accordance with Century Code (N.D.C.C. 06-09-07 and 21-04-02) and were properly coded.
- Selected a random sample of months during our audit period to ensure the Department of Financial Institutions was performing a reconciliation of its clearing account to the Bank of North Dakota.
- Selected a random sample of retainage bonuses paid during our audit period and ensured they were disbursed in accordance with the law. (N.D.C.C. 54-06-31).

AUTHORITY AND STANDARDS

This biennial audit of the Department of Financial Institutions has been conducted by the Office of the State Auditor pursuant to authority within North Dakota Century Code Chapter 54-10.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The standards used to evaluate internal control are published in the publication Standards for Internal Control in the Federal Government issued by the Comptroller General of the United States (Green Book, GAO-14- 704G).

Financials

Revenues and Expenditures

REVENUES AND OTHER SOURCES	JUNE 30, 2022	JUNE 30, 2021
Bank Examination Fees	\$ 3,314,875	\$ 2,375,396
Credit Union Examination Fees	792,160	666,694
Mortgage Loan Originator Fees	441,225	529,525
Mortgage Broker Fees	410,615	349,109
Collection Agency Fees	329,150	329,587
Money Transmitter Fees	206,614	193,104
Payday Lender Fees	14,800	900
Interest	3,442	5,091
Miscellaneous	2,050	14,706
Total Revenue and Other Sources	\$ 5,514,931	\$ 4,464,112

Source: ConnectND Financials

Continued on the next page

Financials

Revenues and Expenditures

EXPENDITURES AND OTHER USES	JUNE 30, 2022	JUNE 30, 2021
Salaries and Benefits - Banking	\$ 2,096,243	\$ 2,271,069
Salaries and Benefits - Credit Union	640,404	627,206
Salaries and Benefits - Consumer Protection	666,521	674,128
Lease Improvements	222,081	-
IT - Contracting, Data Processing, and Communications	161,718	486,912
Building Rent	126,255	93,736
Professional Development	116,215	118,278
Travel	68,100	17,202
Equipment and Furniture	42,687	17,687
Operating Fees	34,221	35,746
Miscellaneous	41,292	45,809
Total Expenditures and Other Uses	\$ 4,215,737	\$ 4,387,773

Source: ConnectND Financials

Appropriations

For the Year Ended June 30, 2022

	FINAL APPROPRIATION	EXPENDITURES	UNEXPENDED APPROPRIATIONS
Expenditures by Line Item			
Salaries and Wages	\$ 7,415,098	\$ 3,403,167	\$ 4,011,931
Operating Expenses	1,946,409	812,570	1,133,840
Contingency	20,000	-	20,000
Totals	9,381,507	4,215,737	5,165,770
Expenditures by Source			
Other	9,381,507	4,215,737	5,165,770
Totals	\$ 9,381,507	\$ 4,215,737	\$ 5,165,770

Source: ConnectND Financials

For the Biennium Ended June 30, 2021

	FINAL APPROPRIATION	EXPENDITURES	UNEXPENDED APPROPRIATIONS
Expenditures by Line Item			
Salaries and Wages	\$ 7,022,655	\$ 6,664,881	\$ 357,774
Operating Expenses	2,093,217	1,484,097	609,120
Contingency	20,000		20,000
Totals	9,135,872	8,148,978	986,894
Expenditures by Source			
Other	9,135,872	8,148,978	986,894
Totals	\$ 9,135,872	\$ 8,148,978	\$ 986,894

Source: ConnectND Financials



Office of the
State Auditor


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